

NEWS RELEASE

FOR RELEASE _____

Cline, DeVries & Allen, LLP today released an audit report on the City of Story City, Iowa.

The City's receipts totaled \$3,672,747 for the year ended June 30, 2006, an eleven percent decrease from 2005. The receipts included \$737,182 in property tax, \$683,605 from tax increment financing collections, \$1,018,320 from charges for service, \$456,675 from operating grants, contributions and restricted interest, \$134,525 from capital grants, contributions, and restricted interest, \$328,929 from local option sales tax, \$162,218 from unrestricted investment earnings, and \$151,293 from other general receipts.

Disbursements for the year totaled \$4,438,683, a fifteen percent decrease from the prior year, and included \$1,421,835 for capital projects, \$404,715 for culture and recreation, and \$620,143 for debt service. Also, disbursements for business type activities totaled \$824,719.

A copy of the audit report is available for review in the City Clerk's office.

CITY OF STORY CITY
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-6
 Basic Financial Statements:	 <u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 9-10
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 11-12
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 13
Notes to Financial Statements	14-21
 Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	23-24
Notes to Required Supplementary Information – Budgetary Reporting	25
 Other Supplementary Information:	 <u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 27-28
Schedule of Indebtedness	2 29-30
Note Maturities	3 31
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 32
 Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	 34-35
 Schedule of Findings	 36-39

City of Story City

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kenneth Peterson	Mayor	Jan 2010
Michael Jensen	Mayor Pro tem	Jan 2008
Barbara Frohling	Council Member	Jan 2008
Lois Heckert	Council Member	Jan 2008
Dave Sporleder	Council Member	Jan 2010
Jeffrey Crisman	Council Member	Jan 2010
Mark Jackson	Administrator	Indefinite
Pat Twedt	Clerk	Jan 2007
Dena Nichols	Treasurer	Jan 2007
Fred A. Larson	Attorney	Jan 2007

City of Story City

CLINE, DeVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

316 S. Duff Suite B – PO Box 187
Ames, Iowa 50010
Phone: 515-233-4060 FAX: 515-233-3703

13375 University Ave, Suite 203
Clive, Iowa 50325
Phone: 515-252-7141 FAX: 515-252-7073

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Story City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Story City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Story City as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. However, the primary government financial statements, because they do not include the financial data of the component unit of the City of Story City, do not purport to, and do not, present fairly the results of the cash transactions of the funds of the City of Story City as of and for the year ended June 30, 2006 on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2006 on our consideration of the City of Story City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented management's discussion and analysis which introduces the primary government financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the primary government financial statements.

Budgetary comparison information on pages 23 through 25 is not a required part of the primary government financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Story City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 12, 2006
Ames, Iowa

City of Story City

Basic Financial Statements

City of Story City

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 382,754	15,346	-	-
Public works	370,229	66,155	270,266	-
Health and social services	-	-	-	-
Culture and recreation	404,715	69,616	170,609	-
Community and economic development	99,198	-	-	134,525
General government	315,090	-	15,800	-
Debt service	620,143	-	-	-
Capital projects	1,421,835	-	-	-
Total governmental activities	3,613,964	151,117	456,675	134,525
Business type activities:				
Water	250,035	308,372	-	-
Sewer	324,883	324,381	-	-
Golf Course	249,801	234,450	-	-
Total business type activities	824,719	867,203	-	-
Total	\$ 4,438,683	1,018,320	456,675	134,525
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Special assessments				
Local option sales tax				
Mobile home tax				
Hotel/motel tax				
Franchise taxes				
Cable television				
Unrestricted interest on investments				
Rent				
Net loan proceeds				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(367,408)	-	(367,408)
(33,808)	-	(33,808)
-	-	-
(164,490)	-	(164,490)
35,327	-	35,327
(299,290)	-	(299,290)
(620,143)	-	(620,143)
(1,421,835)	-	(1,421,835)
(2,871,647)	-	(2,871,647)
-	58,337	58,337
-	(502)	(502)
-	(15,351)	(15,351)
-	42,484	42,484
(2,871,647)	42,484	(2,829,163)
580,076	-	580,076
683,605	-	683,605
157,106	-	157,106
8,138	-	8,138
328,929	-	328,929
4,519	-	4,519
67,164	-	67,164
448	-	448
21,745	-	21,745
114,913	47,305	162,218
6,243	-	6,243
2,428,800	-	2,428,800
43,036	-	43,036
-	-	-
52,480	(52,480)	-
4,497,202	(5,175)	4,492,027
1,625,555	37,309	1,662,864
2,541,077	839,299	3,380,376
\$ 4,166,632	876,608	5,043,240
\$ 120,804	-	120,804
156,524	-	156,524
270,552	291,566	562,118
3,618,752	585,042	4,203,794
\$ 4,166,632	876,608	5,043,240

City of Story City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Urban Renewal Tax Increment	Hospital Trust
Receipts:			
Property tax	\$ 580,076	-	-
Tax increment financing collections	-	683,605	-
Other city tax	421,711	-	-
Licenses and permits	12,649	-	-
Use of money and property	34,284	13,841	16,487
Intergovernmental	14,740	-	-
Charges for service	128,921	-	-
Special assessments	-	-	-
Miscellaneous	54,745	-	-
Total receipts	1,247,126	697,446	16,487
Disbursements:			
Operating:			
Public safety	382,754	-	-
Public works	87,016	-	-
Health and social services	-	-	-
Culture and recreation	388,649	-	-
Community and economic development	25,998	73,200	-
General government	315,090	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	1,199,507	73,200	-
Excess (deficiency) of receipts over (under) disbursements	47,619	624,246	16,487
Other financing sources (uses):			
Loan proceeds	-	-	-
Sale of capital assets	-	-	-
Operating transfers in	46,000	6,714	150,577
Operating transfers out	(48,500)	(620,148)	(206,000)
Total other financing sources (uses)	(2,500)	(613,434)	(55,423)
Net change in cash balances	45,119	10,812	(38,936)
Cash balances beginning of year	505,135	145,712	660,162
Cash balances end of year	\$ 550,254	156,524	621,226
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	550,254	-	-
Special revenue funds	-	156,524	621,226
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 550,254	156,524	621,226

See notes to financial statements.

Debt Service	Capital Projects		Other	
General	I-35	Recreation	Nonmajor	
Obligations	Development	Center	Governmental	Total
			Funds	
157,106	-	-	-	737,182
-	-	-	-	683,605
1,094	-	-	-	422,805
-	-	-	-	12,649
10,144	1,532	17,433	27,435	121,156
-	134,525	-	270,266	419,531
-	-	-	-	128,921
-	-	-	8,138	8,138
-	-	40,000	129,507	224,252
168,344	136,057	57,433	435,346	2,758,239
-	-	-	-	382,754
-	-	-	283,213	370,229
-	-	-	-	-
-	-	-	16,066	404,715
-	-	-	-	99,198
-	-	-	-	315,090
620,143	-	-	-	620,143
-	729,267	525,087	167,481	1,421,835
620,143	729,267	525,087	466,760	3,613,964
(451,799)	(593,210)	(467,654)	(31,414)	(855,725)
-	-	2,428,800	-	2,428,800
-	-	-	-	-
1,376,952	-	200,000	85,980	1,866,223
-	-	-	(939,095)	(1,813,743)
1,376,952	-	2,628,800	(853,115)	2,481,280
925,153	(593,210)	2,161,146	(884,529)	1,625,555
(656,244)	446,691	-	1,439,621	2,541,077
268,909	(146,519)	2,161,146	555,092	4,166,632
268,909	-	-	1,643	270,552
-	-	-	-	550,254
-	-	-	517,512	1,295,262
-	(146,519)	2,161,146	(18,049)	1,996,578
-	-	-	53,986	53,986
268,909	(146,519)	2,161,146	555,092	4,166,632

City of Story City

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds			
	Water	Sewer	Golf Course	Total
Operating receipts:				
Use of money and property	\$ 23,647	23,384	274	47,305
Charges for service	308,372	324,381	234,450	867,203
Total operating receipts	332,019	347,765	234,724	914,508
Operating disbursements:				
Business type activities	250,035	324,883	249,801	824,719
Total operating disbursements	250,035	324,883	249,801	824,719
Excess (deficiency) of operating receipts over (under) operating disbursements	81,984	22,882	(15,077)	89,789
Other financing sources (uses):				
Operating transfers in	-	20,028	-	20,028
Operating transfers out	(27,480)	(45,028)	-	(72,508)
Total other financing sources (uses)	(27,480)	(25,000)	-	(52,480)
Net change in cash balances	54,504	(2,118)	(15,077)	37,309
Cash balances beginning of year	270,961	560,966	7,372	839,299
Cash balances end of year	\$ 325,465	558,848	(7,705)	876,608
Cash Basis Fund Balances				
Reserved for maintenance/replacement	\$ 64,556	227,010	-	291,566
Unreserved	260,909	331,838	(7,705)	585,042
Total cash basis fund balances	\$ 325,465	558,848	(7,705)	876,608

See notes to financial statements.

City of Story City

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Story City is a political subdivision of the State of Iowa located in Story County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Story City has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the Story City Municipal Electric Utility. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These primary government financial statements present the City of Story City (the primary government) and exclude the component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its administrative office.

Component Unit

The Story City Municipal Electric Utility is a component unit of the City of Story City and is not presented in these primary government financial statements. They are legally separate from the City, but are financially accountable to the City. The Story City Municipal Electric Utility (Utility) was established to operate the City's electric facilities. The Utility is governed by a three member Board of Trustees appointed by the Mayor and approved by the City Council. Title to all property of the Utility is held in the name of the City. A financial benefit/burden relationship exists between the City and the Utility in that the

City is authorized by statute to issue general obligation debt for a city utility, and may certify taxes for the payment of the debt.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Main Street Program, Central Iowa Regional Transportation Planning Alliance Board, Central Iowa Regional Housing Authority, Story City Chamber of Commerce Board, Trees Forever Board, and the League of Cities.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are

paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Hospital Trust Fund is used for internal loan purposes. To date, it has been used for TIF related projects.

The Debt Service General Obligations Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The I-35 Development Fund is used to account for costs related to the development of the Story City Interstate 35 Business Park.

The Recreation Center Fund is used to account for construction on the new recreation center project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Golf Course Fund accounts for the operation of the City owned golf course.

C. Measurement Focus and Basis of Accounting

The City of Story City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and

disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds in instruments that mature within 397 days. Operating funds are defined as those funds which are reasonably expected to be expended during a current budget year or within fifteen months of receipt. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City of Story City.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation and urban renewal tax increment financing project notes are as follows:

Year Ending June 30,	General Obligation		Urban Renewal Tax	
	Notes		Increment Financing	
	Principal	Interest	Principal	Interest
2007	\$ 525,000	\$ 80,382	\$ 2,450,000	\$ 93,275
2008	545,000	62,294	-	-
2009	570,000	41,916	-	-
2010	150,000	19,460	-	-
2011	155,000	12,800	-	-
2012-2013	130,000	8,612	-	-
Total	\$ 2,075,000	225,464	\$ 2,450,000	93,275

The Urban Renewal Tax Increment Financing Anticipation Project Notes were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years end June 30, 2006, 2005, and 2004 were \$56,929, \$55,285 and \$52,556 respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. A portion of sick leave is payable upon termination of employment if the employee quits or retires after at least ten years of continuous service. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 34,762
Sick leave	<u>23,824</u>
Total	<u>\$ 58,586</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Hospital	\$ 6,000
	Enterprise: Sewer	25,000
	Water	15,000
	Permanent: Cemetery Perpetual Care	
		<u>46,000</u>
Special Revenue: Urban Renewal Tax Increment	Debt Service: Special Assessments	6,714
Hospital Trust	Special Revenue: Urban Renewal Tax Increment	150,000
	Debt Service: Special Assessments	577
Equipment Replacement	General	<u>45,000</u>
		202,291
Debt Service: General Obligations	Special Revenue: Urban Renewal Tax Increment	445,148
	Debt Service: Special Assessments	847
	Capital Projects: Well Project	<u>930,957</u>
		1,376,952
Capital Projects: Recreation Center	Special Revenue: Hospital Trust	200,000
Housing Assistance	Special Revenue: Urban Renewal Tax Increment	25,000
Well Project	Enterprise: Water	12,480
Trees Forever	General	<u>3,500</u>
		240,980
Total		<u><u>\$ 1,866,223</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Notes Receivable/Economic Development

The City made a \$25,000 loan to Cottage on Broad, Inc. in a prior fiscal year. Interest on the loan is at 2.75% and monthly payments of \$57 are due thru March of 2006. Beginning in April of 2006, principal and interest of \$551 is due monthly until March of 2009. The balance of the loan at June 30, 2006 is \$24,507.

The City approved a \$47,854 loan to Record Printing Co., Inc. in October of 2002. Monthly payments of principal and interest of \$847 are to be made until October of 2007. The loan has an interest rate of 2.38%. The balance of the loan at June 30, 2006 is \$13,322.

During the 2004-2005 fiscal year, the City loaned \$50,000 to MH Eby, Inc. Interest of \$115 is due monthly from June 2005 thru April 2009. Interest payments of \$57 are due monthly from June 2009 thru April 2010. Principal payments of \$25,000 each are due on May 1, 2009 and May 1, 2010. The loan has an interest rate of 2.75% and the balance of the loan on June 30, 2006 was \$50,000.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,565 during the year ended June 30, 2006.

(9) Assisted Living Facility Revenue Bonds

The City has issued a total of \$8,500,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$7,792,636 is outstanding at June 30, 2006. The bonds and related interest are payable solely from the revenues of the Assisted Living Facility, and the bond principal and interest do not constitute liabilities of the City.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Landfill

The City has contracted with the City of Ames for solid waste disposal for all households or residences within the City. The contract began April 1, 1994 and will terminate June 30, 2014. The cost is computed for each calendar year. On or before February 15th of each year, the City of Ames will notify the City of Story City of its proportionate share of the net costs of the system for the prior calendar year. The City of Story City will pay the City of Ames one-half of its share on July 15th and one-half on or before December 15th of each year. The annual rate of the contract is determined by multiplying the net per capita cost of the Ames solid waste disposal system by the population of the City of Story City. During the year ended June 30, 2006, the City paid a total of \$34,104 to the City of Ames in connection with this contract.

(12) Subsequent Events

Subsequent to June 30, 2006, the City approved the following:

- development agreement and the sale of lot #2 in the I-35 Business Park to Stingray, LLC
- sale of lot #1 in the I-35 Business Park to SIG Holdings
- approved a proposed ballot for a hotel/motel tax increase from 5% to 7%
- approved an economic development loan to Record Printing

(13) Construction Commitments

The City had the following commitments with respect to unfinished capital projects at June 30, 2006:

<u>Project</u>	<u>Remaining Commitment</u>
I-35 Business Park Improvements	\$ 1,001
Recreation Center - general construction	1,124,098
Downtown Penn Improvements Phase II and I-35 Business Park Phase II	670,267
Recreation Center – mechanical work	260,733
Recreation Center – masonry work	132,124
Recreation Center- roofing/sheet metal	98,700
Recreation Center – gypsum board systems/ceilings	158,950
Recreation Center – painting	43,831
Recreation Center – fire suppression piping	29,700
Recreation Center – elevator	53,400
Recreation Center – electrical work	129,946
I-35 Business Park Improvements Phase III	<u>297,895</u>
	<u>\$ 3,000,644</u>

Required Supplementary Information

City of Story City
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 737,182	-
Tax increment financing collections	683,605	-
Other city tax	422,805	-
Licenses and permits	12,649	-
Use of money and property	121,156	47,305
Intergovernmental	419,531	-
Charges for service	128,921	867,203
Special assessments	8,138	-
Miscellaneous	224,252	-
Total receipts	<u>2,758,239</u>	<u>914,508</u>
Disbursements:		
Public safety	382,754	-
Public works	370,229	-
Health and social services	-	-
Culture and recreation	404,715	-
Community and economic development	99,198	-
General government	315,090	-
Debt service	620,143	-
Capital projects	1,421,835	-
Business type activities	-	824,719
Total disbursements	<u>3,613,964</u>	<u>824,719</u>
Excess (deficiency) of receipts over (under) disbursements	(855,725)	89,789
Other financing sources (uses), net	<u>2,481,280</u>	<u>(52,480)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,625,555	37,309
Balances beginning of year	<u>2,541,077</u>	<u>839,299</u>
Balances end of year	<u>\$ 4,166,632</u>	<u>876,608</u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
737,182	780,809	780,809	(43,627)
683,605	705,148	705,148	(21,543)
422,805	375,884	375,884	46,921
12,649	11,800	11,800	849
168,461	64,600	64,600	103,861
419,531	445,000	445,000	(25,469)
996,124	939,620	939,620	56,504
8,138	11,000	11,000	(2,862)
224,252	96,645	229,145	(4,893)
3,672,747	3,430,506	3,563,006	109,741
382,754	401,615	401,615	18,861
370,229	394,320	394,320	24,091
-	18,025	18,025	18,025
404,715	356,145	396,145	(8,570)
99,198	39,000	39,000	(60,198)
315,090	289,580	289,580	(25,510)
620,143	611,331	611,331	(8,812)
1,421,835	457,000	1,657,000	235,165
824,719	851,565	911,565	86,846
4,438,683	3,418,581	4,718,581	279,898
(765,936)	11,925	(1,155,575)	389,639
2,428,800	-	2,400,000	28,800
1,662,864	11,925	1,244,425	418,439
3,380,376	2,519,078	3,380,276	100
5,043,240	2,531,003	4,624,701	418,539

City of Story City

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$132,500 and \$1,300,000, respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions.

Other Supplementary Information

City of Story City

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue					Debt Service
	Economic Development Revolving Loan	Road Use Tax	Library Gift	Equipment Replacement	Golf Course Trust	Special Assessments
Receipts:						
Use of money and property	\$ 15,903	-	7,831	1,122	219	229
Intergovernmental	-	270,266	-	-	-	-
Special assessments	-	-	-	-	-	8,138
Miscellaneous	-	-	103,763	-	7,286	-
Total receipts	15,903	270,266	111,594	1,122	7,505	8,367
Disbursements:						
Operating:						
Public works	-	283,213	-	-	-	-
Culture and recreation	-	-	16,066	-	-	-
Community and economic development	-	-	-	-	-	-
General government	-	-	-	-	-	-
Capital projects	-	-	-	19,685	-	-
Total disbursements	-	283,213	16,066	19,685	-	-
Excess (deficiency) of receipts over (under) disbursements	15,903	(12,947)	95,528	(18,563)	7,505	8,367
Other financing sources (uses):						
Loan proceeds	-	-	-	-	-	-
Sale of fixed assets	-	-	-	-	-	-
Operating transfers in	-	-	-	45,000	-	-
Operating transfers out	-	-	-	-	-	(8,138)
Total other financing sources (uses):	-	-	-	45,000	-	(8,138)
Net change in cash balances	15,903	(12,947)	95,528	26,437	7,505	229
Cash balances beginning of year	82,851	133,751	126,976	37,280	4,228	1,414
Cash balances end of year	\$ 98,754	120,804	222,504	63,717	11,733	1,643
Cash Basis Fund Balances						
Unreserved:						
Special revenue funds	\$ 98,754	120,804	222,504	63,717	11,733	-
Debt service fund	-	-	-	-	-	1,643
Capital projects funds	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-
Total cash basis fund balances	\$ 98,754	120,804	222,504	63,717	11,733	1,643

See accompanying independent auditors' report.

Capital Projects						Permanent Cemetery Perpetual Care	Total
Trees Forever	Downtown Improvements	Waterworks Screening	Wastewater Treatment	Housing Assistance	Well Project		
14	495	36	13	565	22	986	27,435
-	-	-	-	-	-	-	270,266
-	-	-	-	-	-	-	8,138
2,596	-	-	-	12,687	1,515	1,660	129,507
2,610	495	36	13	13,252	1,537	2,646	435,346
-	-	-	-	-	-	-	283,213
-	-	-	-	-	-	-	16,066
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,689	86,069	-	-	30,624	24,414	-	167,481
6,689	86,069	-	-	30,624	24,414	-	466,760
(4,079)	(85,574)	36	13	(17,372)	(22,877)	2,646	(31,414)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
3,500	-	-	-	25,000	12,480	-	85,980
-	-	-	-	-	(930,957)	-	(939,095)
3,500	-	-	-	25,000	(918,477)	-	(853,115)
(579)	(85,574)	36	13	7,628	(941,354)	2,646	(884,529)
857	53,312	969	318	4,971	941,354	51,340	1,439,621
278	(32,262)	1,005	331	12,599	-	53,986	555,092
-	-	-	-	-	-	-	517,512
-	-	-	-	-	-	-	1,643
278	(32,262)	1,005	331	12,599	-	-	(18,049)
-	-	-	-	-	-	53,986	53,986
278	(32,262)	1,005	331	12,599	-	53,986	555,092

City of Story City
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Corporate purpose	Oct. 1, 1997	6.85-7.50%	\$ 650,000
Corporate purpose	Apr. 1, 2001	4.00-4.80%	775,000
Corporate purpose	Jan. 1, 2003	2.15-4.45%	550,000
Water improvement refunding	Mar. 1, 2004	1.45-2.85%	1,385,000
Total			
Urban Renewal Tax Increment Financing Bonds:			
Anticipation project notes	Sep. 30, 2005	3.50%	\$ 300,000
Anticipation project notes	May 31, 2006	3.85%	2,150,000
Total			

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 315,000	\$ -	\$ 70,000	\$ 245,000	\$ 23,405	-
510,000	-	75,000	435,000	23,553	-
460,000	-	50,000	410,000	17,630	-
1,305,000	-	320,000	985,000	31,743	-
<hr/>					
\$ 2,590,000	\$ -	\$ 515,000	\$ 2,075,000	\$ 96,331	-
<hr/>					
\$ -	\$ 300,000	\$ -	\$ 300,000	\$ -	-
-	2,150,000	-	2,150,000	7,263	-
<hr/>					
\$ -	\$ 2,450,000	\$ -	\$ 2,450,000	\$ 7,263	\$ -
<hr/>					

City of Story City

Note Maturities

June 30, 2006

General Obligation Notes					
Year Ending June 30,	Corporate Purpose Issued Oct 1, 1997		Corporate Purpose Issued Apr 1, 2001		
	Interest Rates	Amount	Interest Rates	Amount	
2007	7.40%	\$ 75,000	4.50%	\$ 80,000	
2008	7.45	80,000	4.60	85,000	
2009	7.50	90,000	4.65	85,000	
2010		-	4.70	90,000	
2011		-	4.80	95,000	
2012		-		-	
2013		-		-	
Total		<u>\$ 245,000</u>		<u>\$ 435,000</u>	

Year Ending June 30,	Corporate Purpose Issued Jan 1, 2003		Water Improvement Refunding Issued Mar 1, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	
2007	3.15%	\$ 50,000	2.30%	\$ 320,000	\$ 525,000
2008	3.45	55,000	2.65	325,000	545,000
2009	3.75	55,000	2.85	340,000	570,000
2010	4.05	60,000		-	150,000
2011	4.20	60,000		-	155,000
2012	4.35	65,000		-	65,000
2013	4.45	65,000		-	65,000
Total		<u>\$ 410,000</u>		<u>\$ 985,000</u>	<u>\$ 2,075,000</u>

Urban Renewal Tax Increment Financing Bonds					
Year Ending June 30,	Series 2005A Issued Sep 30, 2005		Series 2006A Issued May 31, 2006		Total
	Interest Rates	Amount	Interest Rates	Amount	
2007	3.50%	<u>\$ 300,000</u>	3.85%	<u>\$ 2,150,000</u>	<u>\$ 2,450,000</u>

See accompanying independent auditors' report.

City of Story City

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Three Years

	2006	2005	2004
Receipts:			
Property tax	\$ 737,182	720,335	\$ 667,167
Tax increment financing collections	683,605	1,076,649	1,229,827
Other city tax	422,805	408,444	408,370
Licenses and permits	12,649	14,964	14,042
Use of money and property	121,156	86,079	57,274
Intergovernmental	419,531	630,206	351,606
Charges for service	128,921	115,112	119,356
Special assessments	8,138	43,259	25,132
Miscellaneous	224,252	179,499	59,974
Total	\$ 2,758,239	3,274,547	\$ 2,932,748
Disbursements:			
Operating:			
Public safety	\$ 382,754	369,443	\$ 410,974
Public works	370,229	354,287	349,452
Health and social services	-	1,000	971
Culture and recreation	404,715	392,586	353,434
Community and economic development	99,198	399,896	265,810
General government	315,090	369,192	361,520
Debt service	620,143	1,576,327	521,850
Capital projects	1,421,835	984,059	813,526
Total	\$ 3,613,964	4,446,790	\$ 3,077,537

See accompanying independent auditors' report.

City of Story City

CLINE, DeVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

316 S. Duff Suite B – PO Box 187
Ames, Iowa 50010
Phone:515-233-4060 FAX:515-233-3703

13375 University Ave, Suite 203
Clive, Iowa 50325
Phone:515-252-7141 FAX:515-252-7073

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Story City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 12, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Story City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Story City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Story City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Story City and other parties to whom the City of Story City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Story City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

October 12, 2006
Ames, Iowa

City of Story City
Schedule of Findings
Year ended June 30, 2006

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Story City
Schedule of Findings
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Story City
Schedule of Findings
Year ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do so in the future.

Conclusion – Response accepted.

- III-B-06 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.

- III-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted

- III-D-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jensen Excavating, owned by son Of Council Member	Services	\$ 1,565

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the above individual appears to represent a conflict of interest since total transactions with the individual exceeded \$1,500 during the fiscal year.

Recommendation – The City should contact legal counsel to determine the disposition of this matter.

Response – We will do so.

Conclusion – Response accepted.

- III-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- III-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Story City

Schedule of Findings

Year ended June 30, 2006

III-G-06 Notes – The resolution authorizing the issuance of the \$1,385,000 general obligation notes require the City to establish a debt service sinking fund where the proceeds, interest earned on the proceeds and taxes levied should be posted as well as payments on the debt. As of June 30, 2006, this has not been done.

Recommendation – The City should establish the required fund.

Response – We will do so.

Conclusion – Response accepted.

III-H-06 Deposits and Investments – No instances of non-compliance with the City's investment policy were noted.

III-I-06 Financial Condition – The City had the following deficit balances at June 30, 2006:

Capital Projects, Downtown Improvements Fund	\$32,262
--	----------

Capital Projects, I-35 Development Fund	146,519
---	---------

Enterprise, Golf Course Fund	7,705
------------------------------	-------

Recommendation – The City should investigate alternatives to return these accounts to a sound financial position.

Response – We will do so.

Conclusion – Response accepted.